



Measuring performance based budgeting in Flemish and Italian municipalities

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ABSTRACT

Performance based or output based budgeting frequently plays a significant role in the attempt to modernize local governments' management. New regulations both in Flanders (i.e. the Order regarding the implementation of the Policy and Management Cycle issued in 2010) and Italy (i.e. the Decree on productivity, efficiency and transparency in the public sector, issued in 2009, and the New Budget Regulation, issued in 2011) try to push forward results oriented management in local governments and to install some sort of performance based budgeting. To understand the implementation of performance based budgeting in these local governments and to simultaneously take into account the diversified concept this could represent, a diversified measurement instrument is necessary. To this end, an adapted version of the OECD Performance Budgeting Survey (OECD, 2011) is utilized. After explaining the adaptations made to the original OECD Survey and building on the framework of "Managing Performance" of Bouckaert and Halligan (2008), this paper elaborates on the results from eight interviews performed in both Flemish and Italian municipalities. The scores shed light on the state of affairs of performance based budgeting in the municipalities examined. The paper concludes with reflecting on the survey that should continue the examination made, albeit informed by the results of the interviews done. Ideally, this survey allows for an international examination and comparison of performance based budgeting practices in other local governments too. This could mean an important step in mapping the modernization of local government financial management.

LITERATURE REVIEW

Performance based budgeting fits the ambitions of the financial and accounting dimension of New Public Management (Hood, 1991), also labelled as New Public Financial Management (NPFM) (Guthrie, Olson and Humphrey, 1999). The NPFM reform basically brings performance management into the picture of financial management. As Blum and Manning (2009:47) mention, "measures of performance have been increasingly introduced into management and budgeting arrangements within OECD countries". Likewise, Hughes states that "financial management is now closely related to performance management [...] to provide far more information for decision-makers about the short- and long-term consequences of budgetary decisions" (2012, p. 250). Indeed, budget reforms of the last decades generally point at performance information to guide budgetary decision making (Ho, 2010, p. 391, referring to Grizzle, 1987; Schick, 1966).

Pollitt and Bouckaert (2011, p. 82) discern several steps in the modernization of the budget system. As a first step, performance information is added to the traditional line item and cash-based budget, but serves mostly as background information. Performance information in this first phase of modernization does not play any decisive role in the drawing up of the budget, the execution of the budget procedures, let alone the allocation of resources. In a next step, the format of the budget is actually changed (e.g. by aggregating line items into programs) and, as such, the budget is able to answer different questions (e.g. the cost of a specific program). In the third step, the budget procedures are altered, "so as to try to ensure that the new information in the budget gets properly

considered” (ibidem). A possible final step is to move from cash based to accrual based budgeting. In accordance with these shifts, the OECD discerns three different performance budgeting categories (2007). These are summarized in table 1.

Type	Linkage between performance information and funding	Planned or actual performance	Main purpose in the budget process
Presentational	No link	Performance targets and/or performance results	Accountability
Performance-informed budgeting	Loose/indirect link	Performance targets and/or performance results	Planning and/or accountability
Direct/formula-based performance budgeting	Tight/direct link	Performance results	Resource allocation and accountability

Table 1. Performance budgeting categories (OECD, 2007, p. 21)

In shifting from the presentational type towards a more direct type of performance budgeting, the connection between financial and non-financial information clearly gets stronger and the actual allocation of resources based on this non-financial information becomes possible. Moreover, not only the link between both types of information and the function that follows from this connection changes, also the type of performance information considered shifts. According to the OECD (2007), this performance information can consist of targets or results at first, while in the direct type of performance budgeting, the performance results achieved are important as they define the allocation. These types of performance budgeting acknowledge the existence of a *range* of performance based budgeting practices that go beyond the rather strict definition of performance based budgeting as calculating costs per unit of output planned. After all, when understood in this strict sense, performance budgeting can be very challenging, especially when it concerns heterogeneous outputs (ter Bogt, van Helden & van der Kolk, 2011, p. 13). As such, depending on the outputs considered, a formula-based form of performance budgeting may be undesirable and a different type of performance based budgeting appropriate (such as a performance-informed budget, see Ho, 2010 referring to Joyce, 2003).

Performance based budgeting needs to be embedded in a broader performance management framework (Van Garsse & Windey, 2006). According to Bouckaert and Halligan (2008), this framework consists of three steps, namely measurement, incorporation and use of performance information. This forms “a logical sequence of collecting data, integration of data into the management systems and, finally, putting information at work” (Van Dooren, Bouckaert & Halligan, 2010, p. 6). Following this logic, performance measurement is the systematic collection of performance-related data, while incorporation is concerned with adding these data to documents and procedures with the ultimate aim of influencing organizational discourse, culture and memory. To this end, an organization can utilize a range of tools and techniques and, as such, acquire a certain (level of), respectively, measurement capacity and incorporation capacity. These capacities define

the use of performance information “for designing policies, for deciding, for allocating resources, competencies, and responsibilities, for controlling and redirecting implementation, for (self)evaluating and assessing behaviour and results, and for substantiating reporting and accountability mechanisms” (Van Dooren et al., 2010, p. 6). Following Bouckaert and Van Dooren (2009, p. 156), this use justifies the undertaking of performance measurement – indeed, it “only becomes valuable when it is followed by management action”.

Figure 1 visualizes how performance based budgeting fits in with this broader framework. It points out that measurement of performance information forms the foundation for the overarching system of managing performance. Next, incorporating performance information in the budget process mainly refers to the manner in which the information is included in the budget and the connection that is established between performance and financial information. The use of performance information in budget practices refers to the influence of this inclusion on the budgeting procedure and especially on resource allocation.

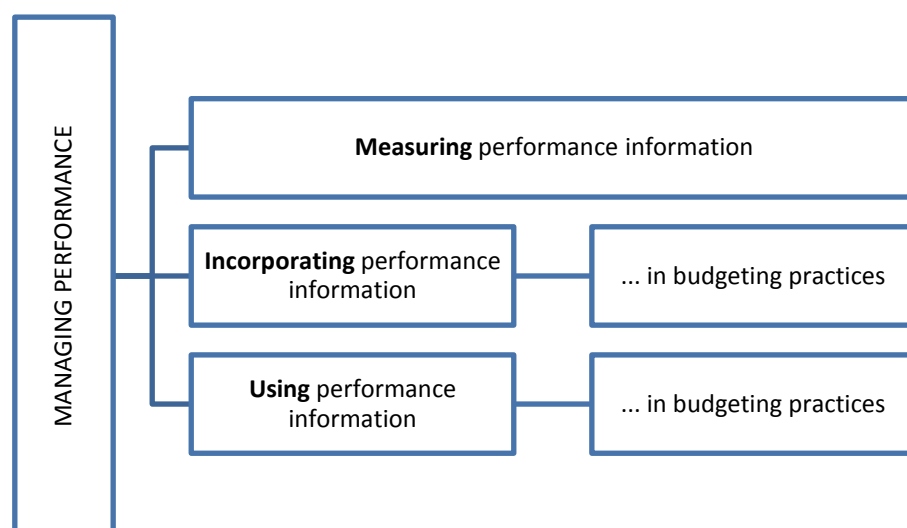


Figure 1. Incorporating and using performance information in budgeting practices

Bouckaert and Halligan (2008) not only discern between measurement, incorporation and use of performance information, they also distinguish several dimensions within each of these three components. Based on this analytical structure, the authors built a framework in which they discern four ideal types of managing performance, namely (1) performance administration, (2) managements of performances, (3) performance management and (4) performance governance (see table 2). Performance based budgeting according to the ideal type of, for example, “Management of Performances”, may imply that performance information is incorporated in the budget, that the content of the budget may actually be changed and that the budget procedures could even be adjusted. These budgets inform on the amount of money to spend to attain certain levels of services provided. As such, there is a direct connection between resources and outputs.

Then again, even though changes to the financial system enable performance oriented decision making, the different parts of the financial cycle (i.e. the budget, the accounting system) remain disconnected and the multiple functions associated with, for instance, the budget, may even conflict. As such, this ideal type suffers from a general “disconnectedness”. In this way, indicators may not be easy to fit in the budget and/or the changes of the accounting system (e.g. a shift towards full accrual accounting) may be out of tune with other change trajectories in the financial cycle (Bouckaert and Halligan, 2008, p. 92). This contrasts the ideal type of “Performance Management”, according to which the financial system does form a coherent system and allows for an active integration of the different parts (budget, accounting, audit) and their multiple functions.

	Traditional/Pre-Performance	Ideal type I: Performance Administration	Ideal type II: Managements of Performances	Ideal type III: Performance Management	Ideal type IV: Performance Governance
MEASUREMENT	Intuitive, subjective	Administrative data registration, objective, mostly input and process	Specialised performance measurement systems	Hierarchical performance measurement systems	Consolidated performance measurement system
INCORPORATION	None	Some	Within different systems for specific management functions	Systematically internal integration	Systematically internal and external integration
USE	None	Limited: reporting, internal, single loop	Disconnected	Coherent, comprehensive, consistent	Societal use
LIMITATIONS	Functional unawareness	Ad hoc, selective, rule based	Incoherence	Complex, perhaps not sustainable as a stable system	Uncontrollable, unmanageable

Table 2. Four ideal types of managing performance (Bouckaert and Halligan, 2008, p. 37)

Ideal type I till III can also be explained in terms of Moynihan’s (2006) public management criteria, by which the author describes the reform path towards a performance-driven Managing for Results (MFR) ideal type. These criteria are (1) the focus on results (high or low) and (2) the managerial authority (high or low). Type I, *Performance Administration*, is according to this typology low on both criteria, type II, *Managing Performance*, is low on managerial authority, but high on the focus on results, while type III, *Performance Management*, is high on both criteria. According to Moynihan (2006, p. 84), this type III (or MFR ideal type) can be described as “managers have clear goals and have authority to achieve goals” which “should facilitate [their] attendance to program effectiveness, higher technical efficiency and results-based accountability”. Finally, ideal type IV, namely *Performance governance*, can be related to what Löffler (2009) states about local governance. Essentially, in this scenario, all stakeholders actively contribute to municipal policy. From a local

governance perspective, resource management for instance, is not merely confined to “budget formulation as a top-down exercise (with fixed ceilings on total expenditures)”, but includes also “the preparation of local budgets with active participation of city councillors, including community representatives” (Löffler, 2009, p. 221). Besides the example of participatory budgeting and the involvement of citizens in public spending at the local level in the UK, reference is also made to the case of “direct democracy” in Switzerland, “where citizens are not only consulted on public budgets and tax issues but even have the last word!” (Löffler, 2009, p. 225).

The typologies explained above are to a large extent compatible. As such, data collected on each individual local government regarding the incorporation and use of performance information in the budget, could be examined in light of these ideal types. On an aggregated level, this would indicate the possible dominance of a certain type in the field examined. Based on the inherent growth scenario towards performance governance (or Löffler’s local governance), the distance between the way performance information is integrated in the budget on the one hand, and the ideal type of performance governance on the other, is relevant to formulate recommendations on the direction the organizations should take to approach the implementation of performance governance.

Several authors doubt the impact of performance based budgeting on budgetary decisions because politicians would not or inadequately use performance information in the budgetary decision-making process. They would prefer informal to formal information (ter Bogt, 2004), lack the expertise to adequately use the information (Reichard, 2010) and primarily use performance information for accountability purposes rather than for steering and controlling (ter Bogt, van Helden & van der Kolk, 2011, p. 2, referring to Taylor, 2009). On a more fundamental level, questions are raised regarding the compatibility of the rational analysis that characterizes performance based budgeting and the politically driven and complex process of budgetary decision-making (Ho, 2010). Again, in a local government setting, non-formula based types of performance based budgeting may thus be desirable or even the only ones feasible. On the other hand, performance based budgeting would be most effective at the managerial or program level rather than the legislative level (Ho, 2010, p. 398): “Its value-added component is for budget and management decisions at the program level, particularly regarding ways to achieve greater efficiency and cost-effectiveness. [...] This is where public managers conduct their daily work and where strategic planning, performance goals setting and program budgeting are logically linked (De Lancer Julnes and Holzer 2001; Poister & Streib, 2005)”. Finally, several factors would enhance the success of a performance based budgeting practice, such as leadership support, organizational capacity, administrative capacity (i.e. strategic planning, performance analysis, cost analysis, program budget analysis, communication with the public), stakeholder involvement in setting priorities and performance goals and constant communication between budgeters and stakeholders (Ho, 2010).

Earlier, Poister and Streib (2005) reported on the extent in which U.S. local governments (with populations over 25.000) link their budgets to their strategic plans. While those cities involved in strategic planning gave evidence of a considerable connection between the strategic plan and the budget (e.g. 88% stated that the annual budget prepared by the chief administrator strongly supported goals, objectives and priorities established in the strategic plan), for only 48% of that

group, performance data tied to strategic goals and objectives actually played an important role in determining resource allocations (Poister and Streib, 2005, p. 49). Other authors have reported the rather low level of implementation of performance based budgeting in smaller municipalities. Ho (2010, p. 392), for example, concluded that, despite the fact that performance-based budgeting has been essential in U.S. local government innovation since the 1980s, only 37% of smaller cities and 8% of smaller counties (i.e. populations between 10.000 and 500.000) have adopted the practice, 22% of smaller cities and 6% of smaller counties have included performance information in discussions of policy priorities and fiscal conditions and 30% of smaller cities and about 5% of smaller counties have been tracking performance over time and reporting performance targets. The author concludes that the greater administrative capacity of larger governments to measure and analyse performance information is necessary to install performance based budgeting (Ho, 2010).

INSTITUTIONAL SETTING

Flemish municipalities

Flanders counts 308 Flemish municipalities, each of them governed by a Municipal Council (legislative body) and a College of Mayor and Aldermen (executive body). The number of inhabitants ranges from less than 100 to more than 500.000. With the median around 14.000 inhabitants, most Flemish municipalities appear to be rather small. Since the 1990s, these municipalities have been subject to public sector reforms striving for results oriented management (Windels & Christiaens, 2006; Weets, 2012). In 1995, a business-like accrual accounting system was introduced to provide more complete and objective financial information, but it never managed to defeat the overall dominance of the traditional budgetary accounting system and prove its potential value (Christiaens, 1999; 2004; Christiaens & Van Peteghem, 2007; Weets, 2012). As such, in 2005, the new Municipal Decree envisioned to solve this discord by introducing a modernized financial management. It moreover believed this to be one means to install strategic planning and strategic management. Overall, the Decree was clearly NPM-inspired, and, as such, also emphasized long-term planning, accountability, delegation of responsibilities, the use of management teams etc. However, most stipulations of this Decree were only put into force with the introduction of the Order concerning the Policy and Management Cycle (issued in 2010 and obligatory to all municipalities from 2014 onwards).

In line with the spirit of the 2005 Municipal Decree, this fairly recent Policy and Management Cycle (PMC) Order attempts to stimulate an output orientation over the traditional input orientation by changing the nature of the local governments' reporting system. It attaches great importance to formulating *measurable* policy objectives and tries to enforce a detailed connection between these objectives and their financial estimates. As such, specific attention is given to the integration of financial and non-financial information in policy reports (the long-term plan, the budget and the annual account). In the budget, expenses and revenues are now related to clusters of activities (policy domains) and policy objectives, while previously these expenses and revenues were merely

divided into categories of operations, investments and other transactions. The importance of the connection between (measurable) policy objectives, their corresponding action plans and actions and their financial estimates, emphasizes the focus on outputs and the attempt to install some form of performance based budgeting in Flemish municipalities. On the other hand, a new municipal accounting system was proposed that integrates both the accrual and budgetary accounting system and that is based on a single registration system using double-entry bookkeeping (Van Vaerenbergh & Fockenier, 2013, p. 8).

Italian municipalities

In Italy there are 8.092 municipalities. These vary considerably in size. About 70% of them (i.e. 5.698 municipalities) contain less than 5.000 inhabitants, while the largest ones have a population of more than 2.700.00 inhabitants (in the case of Rome, for example). Since the 1990s, Italian municipalities have known several NPM-inspired regulatory changes, aiming to stimulate transparency, efficiency and effectiveness. However, the sequence and the rationale of these changes have often been ambiguous and not well coordinated. Therefore, in 2000, one single text was created in which all regulatory fundamentals related to the Italian local governments are stipulated.

In the early 2000s, the Italian Ministry of Public Administration launched a nation-wide program (*Programma Cantieri*) for the empowerment of central and local administrations. Striking is the policy implementation sequence. First, emphasis was put on performance evaluation of senior civil servants, followed by guidance on the introduction of accrual accounting and managerial control. This however proved ineffective as it took place in the absence of any strategic performance analysis and planning processes (Cepiku, Corvo & Bonomi, 2012). Therefore, recently, two important reforms were introduced: (1) the “performance management reform”, issued in 2009, which concerns planning, measuring, evaluating and reporting objectives and results to enable municipalities to take evidence-based decisions and (2) the “performance budgeting reform”, issued in 2011, concerning the transformation of the traditional financial budget and report to a performance based budget and report. Both reforms share a common bottom line: budget related decisions should be supported by performance information and, more generally, by an effectively functioning performance management cycle.

METHODOLOGY

Mapping performance based budgeting

Since 2003, the OECD has been carrying out the *OECD Budget Practices and Procedures Survey* approximately every four year. The performance budgeting part of this survey questions the development and use of performance information in the budget process. For practical reasons, the survey focuses on the central level. Since 2011, the performance budgeting part of the survey is isolated into a separate survey, namely the *OECD Performance Budgeting Survey* (OECD, 2011). Essentially, a high score implies that (1) there is a broad framework for the development of

performance information, (2) there is a high integration of performance information in budgeting and accounting, (3) performance information is used in the decision process and (4) performance results are monitored and reported.

Figure 2 pictures the latest results, gathered in 2007, from the performance budgeting survey (OECD, 2009). With its score of 9%, the Belgian federal government clearly performs very low compared to the other countries. Looking at the types of performance information the Belgian federal government uses (being one aspect making up the score), it appears that evaluation reports and targets are absent. The Flemish government on its turn surveyed herself on the matter of performance budgeting and came up with a score of 17% for the budget of 2011 and 20% for the budget of 2012 (Flanders in Action, 2012). As such, the Flemish government has a higher score than the federal level, but from a comparative perspective still belongs to the lower scoring countries. Especially the use of performance information in budget conciliations or political decisions is lacking. Italy on its turn, attains a score 36%, which is clearly higher than the Belgium and Flemish government, but is still fairly low. Likewise, evaluation reports and targets appear to be absent.

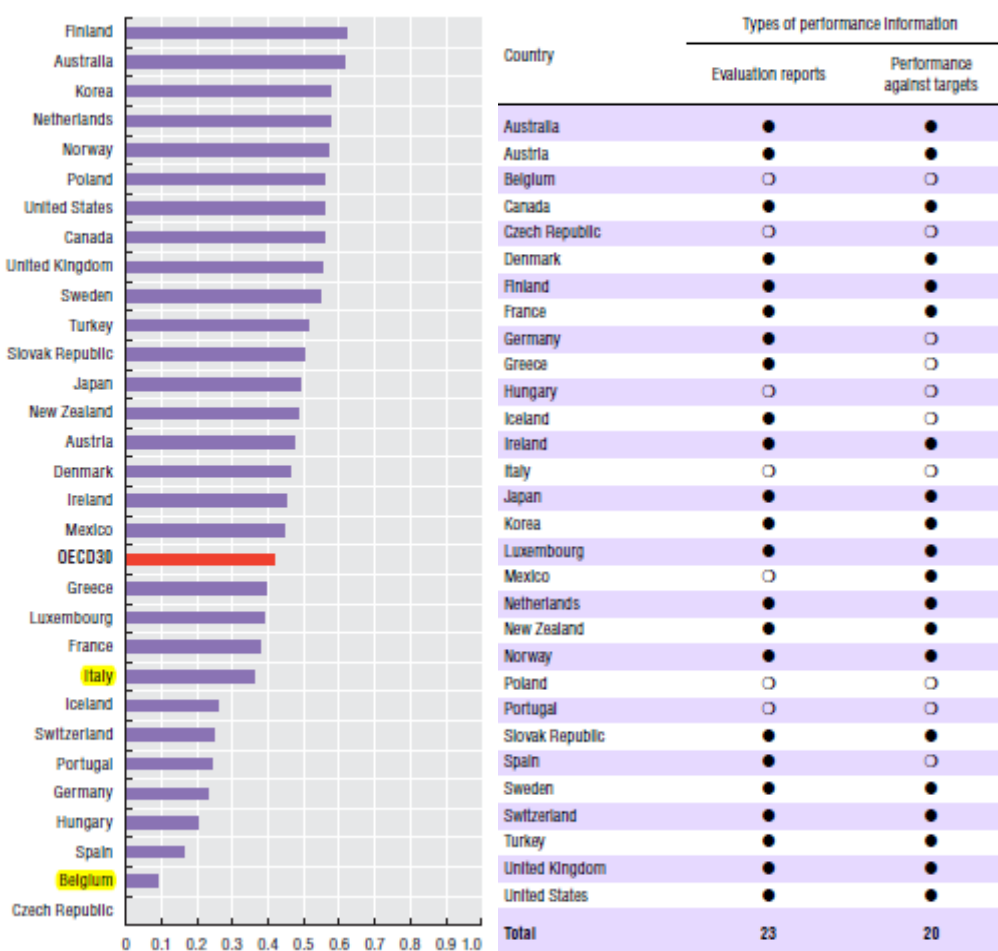


Figure 2. Performance budgeting on the federal level (OECD, 2009, p. 93)

Examining Flemish and Italian municipalities based on the *OECD Performance Budgeting Survey* should result in a broad and detailed picture of the practice of performance budgeting. After all, the survey is based on a conceptual framework concerning the use of performance information in the budget process and embraces the entire budget process. To this end, the OECD uses a broad definition of performance budgeting:

“[the] use of performance information to (i) *inform* budget decisions (whether as a direct input to budget allocation decisions or as contextual information and/or inputs to budget planning), as well as (ii) instil *greater transparency and accountability* throughout the budget process (by providing information to the public on performance objectives and results)” (OECD, 2011, p. 13)

The conceptual framework the OECD applies, is visualized in figure 3. Essentially, it is based on two dimensions: (1) the types of performance budgeting information and (2) the performance budgeting objectives. The types of performance budgeting information contain (a) financial data (i.e. monthly, quarterly or annual financial accounts), (b) operational data and performance reports (i.e. “annual reports” with operational data, or “business cases”, “performance plans” or “strategic plans”), (c) performance evaluations (i.e. evaluations of a specific programme or policy conducted by government), (d) spending reviews (i.e. reviews commissioned and led by the government, with the explicit purpose of identifying possible expenditure cuts and making recommendations regarding the re-allocation of resources, for consideration as part of the budget process), (e) statistical information (i.e. produced by both government and non-government actors and widely available) and (f) independent, or external, performance information (i.e. on a government policy, programme or organisation generated by either arm’s length institutions, non-governmental organisations or the private sector) (OECD, 2011, p. 6-7).

The second dimension of the conceptual framework concerns the performance-budgeting objectives. In this way, an attempt is made to answer the purpose of performance budgeting. The OECD discerns three relevant pillars, namely performance information (1) that informs/guides decision-making regarding the allocation and reallocation of resources (in a direct or indirect way), (2) that is used in analysis for either management purposes or as inputs to policy-making (i.e. for planning, strategy setting, budget formulation, setting performance targets and monitoring them...) and (3) that increases accountability throughout the budget process (i.e. to hold managers/politicians accountable for the economy, efficiency and effectiveness of the organisation) (OECD, 2011, p. 8-9).

Finally, the specific goals related to the survey are the following. First objective is to know what types of performance information and instruments are used in the budget process. To what extent is performance information used in decisions regarding allocation or reallocation of resources? Second objective concerns the perception of the “budget authority” (i.e. the financial department in the local government) regarding the performance information and instruments generated by the several departments and to what extent these contribute to the quality of the performance information, the clarity of presentation of the performance information, the comprehensiveness of information provided, the alignment of performance information with strategic objectives etc. A third objective is the extent in which the financial department and the heads of other departments observe unintended consequences because of the connection between performance information and

budgeting decisions and if certain trends or circumstances can be discerned in which these consequences are more likely to occur. The final objective is to identify good performance budgeting practices, common challenges and emerging trends (OECD, 2011, p. 5-6).

Figure 1. Performance budgeting framework for questionnaire

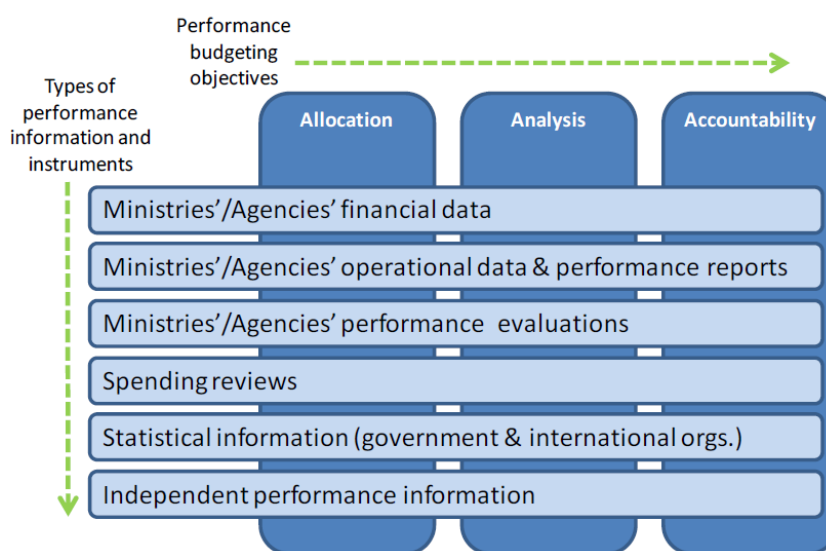


Figure 3. Performance budgeting framework for the OECD Performance Budgeting Survey

Adapting the OECD Survey to the local context

The OECD survey should thus enable a fine grained picture of the state of affairs of performance budgeting in Flemish and Italian municipalities. However, as it is primarily constructed to examine performance budgeting in *central* government, some adjustments prove necessary. This adaptation process basically consists of three steps. The first two steps are performed by the authors of this paper and based on their shared and agreed opinion on the changes necessary. More specifically, in a first step, a rather rough adaptation was made, adjusting for the obvious differences between central and local government. Frequently this entailed redefining actors (e.g. “Ministry of Finance” becomes the “Department of Finance”; “Legislature or Legislative Body” becomes “Municipal Council”) and governmental levels (e.g. “municipal priorities” instead of “national priorities”; “Municipal Manifesto” instead of “Government Manifesto”). Some items simply appeared not applicable in the municipal context (e.g. expenditures related to Defence).

In a second phase, more fine-grained adjustments were made in light of the interviews with the municipalities. While the aim was to keep as close to the original as possible, a couple of items were somewhat simplified in this phase. For example, in the original survey, respondents are asked to estimate the percentage (0-20%; 21-40%; 41-60%, 61-80%; 81-100%) in which each kind of performance measure (i.e. input, output, outcome, efficiency...) is making up the performance information provided by municipal departments (or other bodies) to the financial and budget department as part of their budget submissions. The authors deemed it too difficult for the municipalities to provide correct information on this question through the interviews. As such, the

question was reformulated, so that for each performance measure, the municipality could indicate whether it was used in the budget submissions (yes/no), and, if possible, to what extent this was the case. In a similar vein, the question on how performance information is utilised in budget negotiations with the financial and budget department (e.g. for reducing spending, for eliminating programmes...) was maintained through the adaptation, but the original division of this question in into all COGOF categories was judged too difficult and, therefore, left out. Based on this adaptation, structured interviews with eight municipalities could be performed. A preliminary analysis of the results of these interviews are presented in this paper.

In a third and last phase, the findings from the interviews will inform a final adaptation. This final adaptation is meant to lead to a questionnaire that should extensively map the implementation of performance based budgeting in Flemish and Italian municipalities. Given the scale of this endeavour, the multi-step adaptation process and the interviews are deemed necessary to address the municipalities with appropriate questions and in a comprehensible language. Though the questionnaire will most likely need some more adjustments after it will have been performed, the ultimate goal of this effort is to create a survey instrument that should enable a large-scale, international comparison of performance budgeting in municipalities.

Structured interviews

To perform the structured interviews, four municipalities were selected both in Italy and in Flanders based on the criteria described in table 3 below. A first criterion is the geographical spread of the municipalities. A second criterion is the number of inhabitants. In as much as possible, municipalities were chosen with an constant size. Of course, Italy consists of considerably more municipalities (i.e. over 8.000 compared to 308 municipalities in Flanders) which are on average significantly smaller (i.e. an average size of about 7.500 inhabitants compared to the average of 20.000 inhabitants in Flanders), though with a more negatively skewed distribution (70% contains up to 5.000 inhabitants, while the other 30% has a number of inhabitants between 5.000 and 2.760.000). The more or less constant number of inhabitants within each country should exclude differences due to the size of the municipalities. Size should however be taken into account as a possible explanatory variable when comparing data *across* countries. A third criterion is the year in which the municipality started or will start implementing country-specific formal regulation regarding results-oriented (financial) management. Data analysis will point out whether this affects the extent in which performance based budgeting is implemented.

The structured interviews in the selected municipalities are based on the OECD Performance Budgeting Survey, albeit taking into account the adaptations explained above. The survey mainly consists of closed-ended questions with multiple choices. To a smaller extent, open-ended questions are posed, mostly requiring extra information regarding answers provided on the closed-ended questions (e.g. extra comments or examples). The questionnaire contains five sections: (1) contact information of the respondent, (2) institutional context and recent trends in performance budgeting, (3) types of performance information utilised in budgeting and implementation of performance

budgeting practices, (4) use of performance targets in budgeting and (5) performance evaluations and spending reviews. In total, 39 questions are posed (sometimes containing subquestions).

Name	Country/Region	Geographical position	Inhabitants	Start implementation
B1	Flanders	East	19.860	2012
B2	Flanders	Center	20.642	2012
B3	Flanders	West	19.052	2014
B4	Flanders	North	19.472	2014
I1	Italy	North	162.570	2011
I2	Italy	North	101.368	2011
I3	Italy	South	131.950	2013
I4	Italy	South	69.131	2013

Table 3. Overview of the municipalities interviewed in both Flanders and Italy.

In each selected municipality, the survey was presented to the municipal treasurer or to the head of the financial department (in the case of one Italian municipality, the respondent is the responsible of the strategic planning unit). In the Flemish municipalities, the treasurer was always accompanied by the municipal secretary. Each interview lasted about two hours. The interviewer (i.e. one of the authors) read each question out loud and, whenever applicable, ran through the corresponding multiple-choice answers. The respondents were asked to choose or give the answer most appropriate for the budgeting practices in their municipality. Frequently, the questions posed provoked a discussion among the respondents or required the interviewer to give extra clarification and/or illustration. As such, it is clear that the structured nature of the interviews did not prevent respondents from asking further questions or giving remarks.

Quantitative analysis

One of the primary objectives of using an adapted version of the OECD Performance Budgeting Survey is to obtain a score that indicates the level of implementation of performance based budgeting. When writing this paper, the procedure the OECD uses to score and weigh the individual answers was not yet available. As such, the authors consented to develop an own scoring system. In some cases, this was rather straightforward. For example, when questioning the frequency in which the municipal departments utilise several kinds of performance information (i.e. financial data, operational data, performance reports etc.) in their budget negotiations, the possible answers range from “never” to “always”. This could easily be translated in a scale of 0 to 5. In other cases, the difficulty resided within the definition of the total score or the division of this total score. Defining the total score is less problematic, as it mainly affects the weight the question gets in the total score of the municipality. For example, when asking whether performance targets are linked to higher level strategies, for each high-level strategy listed (i.e. a 5-10 years high-level strategy with municipal priorities, targets and objectives; a 4-5 years spanning “Municipal Manifesto”; a 2-4 years spanning departmental mission etc.), the possible answer is yes or no. Translated into quantitative terms, this means, in our case, a 5 or a 0. As such, the debate for these kinds of questions is not so much concentrated on the division of the score, but rather on defining the total score.

The most challenging questions, at least in terms of the quantitative translation, are those that contain multiple answers that do not form a clear scale with mutually exclusive elements. These constitute a minority in the questionnaire. For example, when asking what the key elements are of the standard performance budgeting framework, the possible choices are: (a) general guidelines and definitions for the performance budgeting process, (b) standard template(s) for reporting performance information back to the financial and budget department, (c) a standard performance rating system, (d) a standard set of performance indicators and/or targets and (e) a standard ICT tool/application for entering and reporting performance information to the financial and budget department. Obviously, this is a question containing answers that can be combined (not mutually exclusive) and, following from this, scores that can be summated. The key part is how to divide the total score among the elements given. For the question at hand, some elements seem however to give more evidence of a thoroughly worked out standard framework than other elements. For example, though general guidelines and definitions regarding the performance budgeting process are important, a standard performance rating system and/or a standard set of performance indicators appear to be more intensive elements of a standard framework. Following this line of logic, the respective answers of this question were given the following scores: (a) 5; (b) 10; (c) 20; (d) 20; (e) 30.

In total, each municipality could score a maximum of 499 points. In the results section (see below), only the questions that were quantifiable in the way mentioned above are presented. In further analysis, an attempt will be made to also take into account the qualitative information provided by some of the open-ended questions. The variables (representing the questions) and corresponding scores included in this first analysis are presented in the tables below. These are restructured according to the dimensions “measurement”, “incorporation” and “use” of performance information for budgeting practices (Bouckaert and Halligan, 2008; see literature review above). Some questions however refer to all these dimensions and are thus applicable to the entire cycle of performance based budgeting. Therefore, these are presented in a separate dimension, referred to as “cycle”.

RESULTS

The tables below give an overview of the temporary results obtained in the four Italian and the four Flemish municipalities. The preliminary analysis is built around four tables. Each table represents one dimension, namely the entire performance budgeting *cycle* (table 4), *measurement* of performance information (table 5), *incorporation* of performance information in the budget (table 6) and *use* of performance information for budgeting purposes (table 7).

Constructing a performance budgeting cycle requires some sort of coordination by a central unit within the municipality. **Table 4** shows that three out of eight municipalities have such a specific unit that is responsible for performance budgeting practices. Simultaneously, it appears that this presence does not necessarily imply a more thorough application of the local performance budgeting

framework. In fact, municipality B1 applies this framework without having a specific unit working on it, while municipality B3, which has a specific unit, does not apply any performance budgeting framework. One Italian municipality (I3) has created a separate entity responsible for performance budgeting and the other three municipalities (I1, I2, I4) have created entities responsible for performance budgeting not separated, but integrated within the unit responsible for the strategic planning. While the extent in which internal stakeholders are involved and in which performance targets are linked to higher level strategies is similar, Italian municipalities carry out performance evaluations based on regulatory or formal elements (as opposed to their Flemish counterparts where no such elements are present).

Dimension	Variables	I1	I2	I3	I4	B1	B2	B3	B4
		%	%	%	%	%	%	%	%
Performance budgeting cycle	1. The presence of a separate entity (e.g. a unit/division) specifically responsible for performance budgeting practices in the municipality.	50	50	100	50	0	100	100	0
	2. The extent in which a performance budgeting framework is applied uniformly across the municipality (e.g. common reporting mechanisms, guidelines, common templates for providing performance information, etc.)	100	33	67	0	67	0	0	33
	3. The extent in which institutional/managerial actors are involved in generating and using performance information for the municipal budgeting process.	71	57	86	60	86	57	57	71
	4. The extent in which performance targets are linked to higher level strategies.	100	20	60	50	80	40	40	80
	5. The extensiveness of the regulatory or formal elements that constitute local performance evaluations.	80	80	80	40,0	0	0	0	0
Total "cycle" variables		82	43	77	35	57	41	41	44

Table 4. Results of the performance budgeting cycle assessment.

Table 5 below concerns the measurement of performance information. Two sorts of differences stand out. First, between municipalities, it appears that the elements that constitute the performance budgeting framework are very different: I2 uses only general guidelines, I3 and I4 applies a standard performance rating system and B1, B4 and I1 developed a standard set of performance indicators and targets that are supported by an ICT tool for data collection and reporting. B2 and B3 has no performance budgeting framework constructed. Second, between countries, spending reviews and performance evaluations appear to be uncommon practices in the Flemish municipalities, while they are established in the Italian ones. This is caused by the difference in institutional framework: two Italian laws (issued in 2009 and 2011) introduced the performance

management cycle (including performance evaluations) and the spending review process. In Flanders, these kinds of practices were not formally introduced.

Dimension	Variables	I1	I2	I3	I4	B1	B2	B3	B4
		%	%	%	%	%	%	%	%
Measuring performance information	6. The extensiveness of the elements that constitute the standard performance budgeting framework (i.e. general guidelines and definitions; standard templates for reporting performance information; standard performance rating system; standard set of performance indicators and/or targets; standard ICT tool for entering and reporting performance information; other).	83	17	67	50	100	0	0	100
	7. The extent in which benchmarks are used in setting performance budgeting.	100	100	100	50	100	100	100	100
	8. The presence of a spending review process.	80	10	90	5	0	0	0	0
	9. The presence of performance evaluations.	80	90	90	5	0	0	0	0
	10. The extent in which performance evaluations are conducted according to regulatory or formal guidelines.	60	100	0	20	0	0	0	0
	11. The extent in which expenditures are examined in the spending review process.	100	100	100	20	0	0	0	0
	12. The extent of stakeholder involvement in spending review process.	87	0	33	0	0	0	0	0
Total "measurement" variables		85	44	70	34	45	11	11	45

Table 5. Results of the measuring performance budgeting assessment.

In **table 6**, communication on performance information appears a well-established practice in all the municipalities examined. However, variations are discerned in the transmission of performance information specifically as part of the budget submissions. In this case, Italian municipalities score higher compared to their Flemish counterparts. Finally the extent of the link between the spending review and other budgetary processes is clearly different for the two countries, given that the spending review approach is not developed in Flemish municipalities.

Dimension	Variables	I1	I2	I3	I4	B1	B2	B3	B4
		%	%	%	%	%	%	%	%
Incorporating performance information in the budgeting process	13. The extensiveness of the communication of performance information from municipal departments (or other local bodies) to the financial and budgetary department.	80	100	100	85	100	100	100	80
	14. The extent in which performance information is provided by municipal departments (or other local bodies) to the financial and budgetary department as part of their budget submissions.	67	83	75	40	75	17	17	50
	15. The extent of the link between the spending review and other municipal budgeting processes.	67	33	100	25	0	0	0	0
Total incorporation variables		70	68	92	49	51	32	46	38

Table 6. Results of the incorporating performance budgeting information assessment.

Analysing the data collected about the use of performance information for budgeting purposes (see **table 7**), two interrelated elements stand out. Regarding the frequency of the use of performance information in budget negotiations (variable 16 and 17), it appears that Italian municipalities use more performance information in budget negotiations. Especially financial data and data originating from spending reviews or cutback management processes are mobilized in budget negotiations: the difference between the two countries seems due to the application of a spending review process in Italy. As such, input oriented performance information still prevails in all the eight municipalities considered. Moreover, taking a closer look at variable 17, there appears to be a marked difference between the use of financial and the use of non-financial performance information, as the non-financial performance information appears quasi irrelevant in the budget negotiations. The predominance of the input orientation is also reflected in the depth of the use of performance information in the budget negotiations (variable 18). The use of non-commissioned policy research or evaluation originating from universities or other external institutes is also very low (variable 19). Finally, regarding the use of performance targets for evidence-based decision making (variable 20), it appears that meeting performance targets does not influence the (budgetary) decisions made. Obviously, this cannot be considered as a positive stimulus for civil servants to implement the performance budgeting process.

Dimension	Variables	I1	I2	I3	I4	B1	B2	B3	B4
		%	%	%	%	%	%	%	%
Using performance information in the budgeting process	16. The frequency of the use of performance information in budget negotiations by the financial and budgetary department.	60	32	60	70	52	20	20	52
	17. The frequency of the use of performance information in budget negotiations by the municipal departments.	66	27	33	80	43	17	17	53
	18. The depth of the use of performance information in budget negotiations with the financial and budgetary department.	70	56	92	0	n.a.	84	84	0
	19. The extent of the use of non-commissioned policy research and evaluation by the financial and budgetary department and other municipal departments.	40	0	16	25	24	16	16	12
	20. The use of performance targets for evidence- based decision making.	100	35	29	49	16	15	15	18
	21. The extent in which saving measures are applied following the last spending review.	63	75	100	50	0	0	0	0
Total use variables		66	38	54	36	20	28	31	20

Table 7. Results of the using performance budgeting information assessment.

CONCLUSION

Table 8 summarizes the preliminary data analysis and structures it according to the framework of Bouckaert and Halligan (2008) on managing performance. Figure 1 (see above) pictures our conceptualization of the practice of performance based budgeting according to this framework, which is also reflected in the table below. The scores clearly indicate a rather low level of implementation of performance based budgeting (on average 47%). The lowest scores are obtained for the actual use of performance information in the budgeting process (on average 37%), while the highest ones belong to the incorporation of performance information (on average 56%).

Types of variables	I1	I2	I3	I4	B1	B2	B3	B4	Mean
	%	%	%	%	%	%	%	%	%
Performance budgeting cycle	82	43	77	35	57	41	41	44	52
Measuring performance information	85	44	70	34	45	11	11	45	43
Incorporating performance information in budgeting	70	68	92	49	51	32	46	38	56
Using performance information in budgeting	66	38	54	36	20	28	31	20	37
Performance based budgeting	76	48	73	38	43	28	31	37	47

Table 8. Agglomerated results of the performance budgeting assessment.

Figure 4 illustrates the level of implementation of performance based budgeting for the different governmental levels in both Italy and Belgium. Clearly, Italy outperforms Belgium, both on the federal and local level. As such, similar to the scores obtained by the OECD for the federal level, the level of implementation of performance based budgeting on the local level is about 25% lower for Flemish municipalities compared to their Italian counterparts. Finding the reasons for this discrepancy between both countries is part of further analysis, but as mentioned in the results part above, at least some differences can be attributed to dissimilarities in the regulatory framework of both countries. It could be asserted that the Italian regulatory framework for local government is more thorough or demanding regarding performance based budgeting practices.

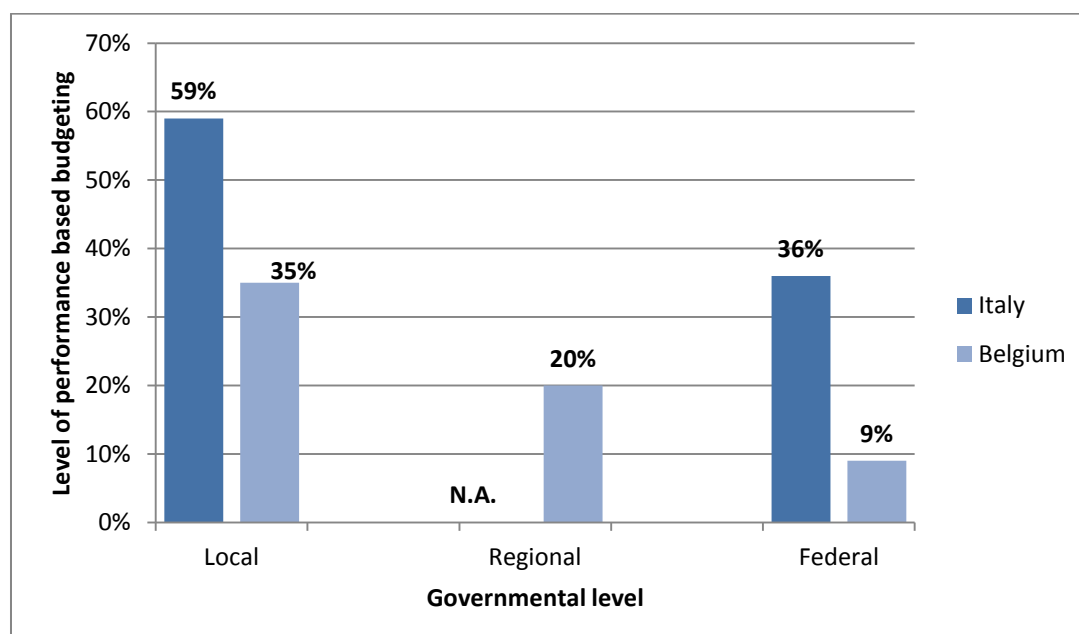




Figure 4. Level of performance based budgeting for the different governmental levels in Italy and Belgium

Of course, data presented above are based on a preliminary analysis of a limited number of municipalities. Therefore, the results should be interpreted very carefully.

However, as our ultimate goal is to create and perform a survey that is able to map municipal performance based budgeting on a large (international) scale, the content of the questionnaire should be reanalysed to make this goal possible. As mentioned, the structured interviews are performed not only to deliver relevant data, but also to provide feedback on the way the authors adjusted the OECD Performance Budgeting Survey to the local level. From the interviews performed so far, it however appears that the difficulty of the questions and corresponding answering categories cannot be underestimated, even though extensive adjustments have already been made. Another point that should be tackled, is that the questionnaire provokes socially desirable answers.

In the ultimate survey, questions and answering categories should thus be constructed such that these are comprehensive for the municipalities questioned, but also such that the social desirability bias can be reduced. At any rate, it appears so far that respondents feel very much pressured to be compliant with performance budgeting and managing practices, while in reality, their actual implementation is fairly low. Besides feedback from the interviews, (national and international) institutional actors can also be involved to assess the content of the questionnaire.

Once the questionnaire will be brought up to date in the way described above, the survey can be taken by a representative sample of Italian and Flemish municipalities and quantitative analysis should be possible. Besides descriptive data, inferences regarding the implementation of performance based budgeting practices can as such be drawn.

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